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POLTO A - 70

3 August 1956

CIA INTERNAL USE ONLY

FROM: USRO Paris

TO : Washington

PRIORITY

EXCON

SUBJ: CHINA DIFFERENTIAL TRADE CONTROLS: AN APPRAISAL

A. INTRODUCTION

The US delegation to CG/COCOM/CHINCOM has noted that a CFEP decision is being sought relative to conducting a comprehensive review of our economic defense policy and that such a review, if undertaken, would not be completed before November at the earliest (reference TOPOL 74, July 13). The delegation is of the opinion that such a review is sorely needed in the light of the unsatisfactory state of affairs which has existed for a considerable period of time in the 15-nation "Paris group" on East-West trade controls.

This airgram is intended to assist the carrying out of such a review by the presentation of frank observations on the attitudes of other member countries concerning the principal divisive issue of the past two years—i.e., China differential* controls—and the consequences resulting from the failure to resolve that issue.

The delegation is fully cognizant of the many factors covering US policies in this area, and therefore trusts that this message will not be misconstrued as espousing the policies

* The China "differential" consists of some 451 item definitions (or parts of definitions) which are subject to embargo to Communist China but not embargoed to the European Soviet bloc. In addition, there are 227 items on International List I, the Atomic Energy and the Munitions Lists, which are embargoed both to China and the European bloc.

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f other member countries against those of the US. The following evaluation of the basic problem as seen from this end has not affected the USDEL'S determination to continue vigorously to defend whatever US policy decisions emerge (or remain unchanged) in this field. At the same time, the delegation feels it would be appropriate to present its honest appraisal of where we are now, and where a continuation of the present situation threatens to lead us.

It is no secret that the US today stands in a virtually isolated position among the Paris group countries with regard to the validity (strategic, economic, political, and conceptual) of the continued application of differential trade controls against Communist China. The basic question posed by this fact is whether the voluntary multilateral forum established to coordinate national policies is capable of resolving this fundamental disagreement. Recent developments lead us to the conclusion that the very existence of this Paris organization is in jeopardy unless there is some accommodation by the US to the views of other member countries concerning the "China differential".

On July 13, at the last China Committee meeting before the summer recess, the United Kingdom made a policy statement on China controls which points up some of the basic issues (reference Document CH/730, reported in POLTO 104). In USDEL's view, this statement cannot be ignored as an intemperate expression of irritation; instead, it represents a serious and carefully-worded condemnation of US "inflexibility". To a certain extent, the UK declaration is attributable to increasing dissatisfaction (by the UK and others) that the present China controls rest on policy decisions recorded well over two years ago, and that there has been no multilateral review of these controls at the policy level since that time. It should be noted in this connection that when the Paris group was established some six years ago it was contemplated that the top-level Consultative Group would meet several times a year. This practice was followed until mid-1954. Since then, with a view to averting any change in China controls, the US has managed to stave off a CG meeting. (A chronology of events in this connection is reported separately in POLTO A-69 of August 2). In forestalling such a meeting for over two years we have "bought time", but we have also seen the deterioration of COCOM and CHINCOM as effective multilateral organizations.

B. THE UK STATEMENT

Although the general meaning and purpose of the recent UK declaration are self-evident, there are certain points on which the USDEL would like to comment further,

1. The UK suggests that CHINCOM "should take serious note of the fact that on numerous occasions the virtually unanimous agreement of the Committee to an export has been subjected to adverse criticism - - - - -"

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[by the US]. This is a situation which the majority of the Committee's Member Governments are finding increasingly intolerable...." Future UK decisions will therefore be "guided to an increasing extent by the expressed opinions of the majority."

This represents a declaration of intention to break away from the longstanding though unwritten rule of the Committee that unanimity is required before approval of those cases submitted for prior consultation. For nearly six years the US has had what amounted to a veto over transactions involving such items, since with rare exceptions it had been the practice of all member countries to withhold export licenses if any objections were raised under the prior consultation (Doc. 471) procedure. It is true that the great majority of China exception cases up to the present time have involved items subject to another (Doc. 732) procedure, permitting ex post facto announcements of licenses issued. Recently, however, increasing recourse has been made to items of greater strategic importance for which prior consultation is required. Thus the UK declaration (and its implementation which has already taken place with regard to one significant UK exception) severely limits the practical ability of the US to influence the actions of member countries with regard to the entire scope of China differential controls.

2. The UK says that the China differential "is no longer considered logical or defensible." That the UK view is shared by most other countries seems borne out by statements which the latter have made. For example, the Dutch government considers the differential to be a "hypocrisy." Canada feels that maintenance of the differential "is making a mockery of the voluntary control system". Denmark has stated "It would be flying in the face of reality not to allow for flexibility...to meet the needs of the present situation". Belgium believes that "some of the restrictions presently in force have lost most of their effectiveness." Italy has expressed the view that "many of the technical premises upon which the lists were then prepared can now, five years later, be considered obsolete." A high German official, after canvassing most of the key delegations in Paris, reported he found none, who thought the differential could be defended on strategic grounds, or was impressed with the "extra cost burden" argument. The views of France and Japan are already well known.

3. The UK also contends that the differential controls now savor of "economic warfare, a function not prescribed for the China Committee." While other countries would join with the UK in rejecting the economic warfare concept in either COCOM or CHINCOM controls, USEL previously has pointed out (POLTO 1196 or January 13) that there has never been an agreed understanding as to the specific objectives of the China control policy. CHINCOM controls were introduced as an extension of the UN embargo resolution, but without

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defining a China policy per se. As for the UN resolution itself, some member countries contend that the China differential could be abolished without violating the former.

h. The UK observes that "No Committee of sovereign, independent Governments can long be expected to continue to accept the China differential. If the China Committee is to retain its vitality, its honesty and its coordinating functions intact it must ask that due regard be paid to the wishes of the overwhelming majority of its members."

While the previous reference to "majority views"—in (1) above—relates to the licensing of individual exports, the later reference implies that majority views shall prevail in any substantive revision, "in the not too distant future", of the controls and procedures themselves. The combination of these two points appears to reduce substantially whatever safeguard the US might read into the assurance that the UK does not intend to act unilaterally without consulting the Committee.

C. CHINA EXCEPTIONS CASES

When provision was first made for exceptions to the China embargo, the total of cases submitted in the early periods came to a very small value. Since then the volume has progressively increased and a cumulative total of over \$35 million has now been reached (through July 1956). The actual licensing of these exceptions amounts to a somewhat smaller figure. In the past this disparity has been partly due to US objections, though in recent months the gap between "cases presented" and "licenses issued" has considerably narrowed. It is also significant that the volume of cases submitted has recently accelerated to such an extent that over half of the aforementioned \$35 million total was registered during the first seven months of 1956.

In view of the ever-mounting volume and value of China exception cases, the question arises whether exceptions have already so undermined the integrity of the differential as an "embargo" category that its preservation—even temporarily—is worthwhile. A USDEL analysis of exception cases with this question in mind (reported in more detail in POLITO A-62 of July 28) shows, perhaps surprisingly, that as of June 30 the vast bulk of China differential items were still under effective embargo. Out of 451 differential items, 320 had not yet been touched. Furthermore, over 95% of the total value of cases submitted was accounted for by only 27 items. A large portion of the total value has involved items which are relatively innocuous from a strategic standpoint.

At first glance the preceding paragraph might indicate some hope

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of maintaining a substantial portion of the differential embargo. However, it seems clear from the UK declaration, the known attitude of most other member countries, and the geometric increase in the number and value of exception cases submitted, that the whole principle of the China differential will be increasingly subjected to frontal assault—regardless of whether any commercial demand develops for these items which have not yet figured in the China trade. In the month of July, exceptions were submitted involving 9 differential items which had previously been untouched.

D. CONSEQUENCES OF POLICY DISAGREEMENT OVER CHINA CONTROLS

Over the past year or so, little or nothing constructive has been accomplished in either COCOM or CHINCOM. In the US delegation's opinion, this is directly attributable to the failure to resolve the problem of China controls. Basically, the US has been fighting a rearguard action against strong pressures for relaxation of the differential. Faced with what other countries regard as US "intransigence", they have resorted to whittling away at the established procedures; they have submitted exceptions which they privately acknowledge as distortions of the intent of the Committee's formal agreements; and they no longer pay much, if any, attention to US views.

There is an almost inevitable spill-over into the COCOM forum of the unsatisfactory atmosphere in the China Committee. In COCOM there recently have been several important instances where the established rules and procedures have been disregarded. For example, shipping controls have particularly suffered in this connection. Also, the annual List II review, which sets—or is supposed to set—quantitative limits for certain items, has to an increasing extent lost most of its meaning. The quantitative "control" for many items vastly exceeds actual or foreseeable commercial sales possibilities; in contrast to US urging of more realistic quota limitations, other countries press for downgrading or decentral of the item.

Even more serious is the probability that pressures for relaxing China controls will stimulate demands for a downward revision of COCOM controls vis-a-vis the European Soviet Bloc. The UK has developed a "thermo-nuclear warfare" concept of strategic trade controls, which it presumably intends to sponsor at an appropriate time. While details are not yet available, the plan envisages a substantial reduction in the items to be covered. The French are also developing their own ideas of items to be deleted from the COCOM lists, including a proposal to downgrade List II to List III. Such proposals, when formally introduced, will probably attract the support of most COCOM members.

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Whatever leadership the US previously exercised in the Paris group has now all but disappeared. The wide divergencies between the US and most of the other countries on China trade controls not only exacerbate relations in the Paris group; similar irritations must result on the frequent occasions when high-level representations by Washington and our Missions are required in connection with trade control matters. Of all the international organizations in which the US participates, the Paris group is probably the most divisive from the US standpoint of friendly relations with our allies. It is a cause of profound disquiet to the US delegation that our prestige in this forum has suffered to such an extent that our future ability to influence our partners on matters of real strategic significance has been materially reduced.

E. GENERAL CONCLUSIONS

USDEL has not attempted to make detailed recommendations, since it is felt that Washington is in the best position to determine what might be done in relation to overriding policy considerations. At the same time, the delegation does feel impelled to offer the following general conclusions in the light of the foregoing appraisal:

1. Virtually all member governments of the Paris group are willing to support a multilateral trade control program whose objective is the denial of items unanimously agreed to be of strategic importance. In the framework of China controls, the formal multilateral agreements no longer reflect the views of any active member of CHINCOM except the US. In the field of COCOM controls there is also a growing threat of pressures for relaxation. While this threat is not so tangible as that pertaining to China controls, it should not be lost sight of in any overall review of US economic defense policy.

2. Barring an outbreak of actual hostilities in the Far East, other member governments will continue to press for the abolition of the China differential. It will disappear whether the US concurs or not. If carried out in an orderly way with US concurrence the multilateral undertaking for future coordination of strategic trade controls will be preserved, while the reverse situation would further endanger the multilateral forum's effectiveness, if not existence.

3. Most of the other countries now recognize that the US cannot participate in a full-dress downward revision of China controls — such as would be involved in a CC meeting — until after November. However, our oft-repeated assertion merely to the effect that we have the matter under "high-level review" is no longer an adequate stop-gap. When COCOM/CHINCOM reconvenes in late August the recent UK declaration is likely to receive supporting responses from other members. It is at this early stage when we may be faced with the choice of remaining silent and seeing a disorderly disintegration of the CHINCOM controls, or of making some interim accommodation. The latter would have to be accompanied by our agreement to engage in a multilateral substantive review — with all that this implies — at a given time in the not too far distant future.

4. Recent US negotiating proposals, while recognizing that something should be done to meet the strong desires of other member governments as to the China differential, have incorporated certain quid pro quo features. That is, in return for US acquiescence in some relaxation of the China controls, we would demand a tightening of controls in other areas. As in the case of most negotiating positions, there is the implication that in exchange for concessions on our part, the other parties are obligated to give something in return. USDEL respectfully suggests that this is not necessarily true in the context of a voluntary multilateral control program, particularly with regard to the China differential. As mentioned in the "chronology" (POLTO A-69), other countries have full reason to expect that the differential will be dealt with long before this. They have no doubt regard themselves as having exercised considerable patience, and may well feel that this constitutes an adequate quid pro quo which has been paid in advance.

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